

EDITORIAL

EU – ENERGY ISSUE AND THE PROSPECT OF A LOW CARBON ECONOMY

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During the past months the energy issue became more and more present on the EU agenda for various reasons ranging from the consequences of EU vulnerability as an oil importer when Russia's row with Belarus hit its supplies to the gloomy implications of climate change which is clearly accelerated by current energy consumption patterns.

The EU energy situation is far from reassuring. Some 80% of the energy the EU consumes is from fossil fuels – oil, natural gas and coal. A significant and increasing proportion of this comes from outside the EU. Dependence on imported oil and gas, which is currently 50%, could rise to more than 70% by 2030. This will increase the EU's vulnerability to reductions in supply or higher prices. The EU also needs to burn less fossil fuel in order to reverse global warming. Moreover, the EU's energy infrastructure needs improving at an estimated cost of €1 trillion over the next 20 years.

The EU energy agenda is seen not only as a hot issue but also as a return to origins. More than 50 years ago, when the European integration process started, energy had been a driving factor manifested by the establishment of the European Coal and Steel Community in 1951. At that time, it was the wish to eliminate the threat of any future war that put together the industries related to the military. But for all civilian purposes the energy policy has on the whole remained mainly a national issue. The fact that the energy issue is still a national problem in 2007 can be illustrated by the Germany's €12 billion project to build a Baltic Sea gas pipeline to Russia, bypassing Poland and ruling out any EU funding.

Nowadays, the Commission's chief Jose Manuel Barroso says it is high time for a "post-industrial revolution"¹. This means that Europe needs new policies to face a new reality - policies which maintain Europe's competitiveness, protect environment and make energy supplies more secure. At the same time, Europe

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¹ Mark Mardell, EU plans 'industrial revolution' , BBC Europe, Wednesday, 10 January 2007.

must lead the world into a new post-industrial revolution based on the development of a low-carbon economy. The concept of a low-carbon economy means that Europe would reduce greenhouse gases by 20% by 2020. An interesting side effect of this is the emerging re-acceptance of nuclear energy as a way of driving down CO2 emissions after decades of strong opposition to it.

Becoming a low-carbon economy means that EU will use less fossil fuel in industry, transport and the home, and make use of renewable energy sources to generate electricity, heat or cool buildings, and fuel transport, particularly cars. This implies a switch to wind (particularly offshore wind), biomass, hydro and solar power and bio-fuels from organic matter. The following step could be to become a hydrogen-based economy.

The idea of a common EU energy policy was first approved at a summit at Hampton Court, in London, in October 2005. There are three central pillars to the proposed integrated EU energy policy:

- A true internal energy market;
- Accelerating the shift to low-carbon energy;
- Energy efficiency through the 20% target by 2020.

According to the proposed EU energy policy, in addition to the 20% of all EU energy that should come from renewable power by 2020, 10% of vehicle fuel should come from biofuels.

Another target is to make sure that all new power stations are carbon neutral in 13 years - they should be built in such a way that carbon can be captured and buried - as well as ensuring there is a big increase in renewable power like wind and wave energy.

Without such investment and energy efficiency measures, the EU energy imports will rise from 50% of consumption to 70 % by 2030, requiring increased reliance on potentially unpredictable sources.

In a symmetrical way to the proposed EU energy policy, the EU energy strategy is also based on three pillars which are sustainability, competitiveness and security¹.

The "sustainability" pillar refers mostly to climate change aspects.

The "competitiveness" pillar refers to policies to ensure that Europe's economy remains competitive despite the extra costs of moving over, even partially, to low-carbon energy. The top priorities are to further liberalize Europe's internal energy market - in order to bring down prices - and to boost research on low-carbon technologies.

¹ Commission of the European Communities, Green Paper.

A European Strategy for Sustainable, Competitive and Secure Energy, COM(2006) 105 final, Brussels, 8.3.2006

The "security" pillar refers to reducing dependence on imported hydrocarbons, but also diversifying sources of energy, building infrastructure such as new liquefied natural gas terminals, and improving Europe's capacity to cope with disruptions in supply. In this context the EU Commission is seeking a new long-term pact with Russia on energy supplies.

Among the most sensitive issues of the proposed EU energy there is the idea of a true internal energy market. Although EU is often presented as a Single Economic Space or a Common Market, the truth is that in many areas EU is not a common market and not even a free market economy. In order to understand this statement is enough to think about administered prices in areas such as agricultural products or energy or about freedom of circulation of labor or services. Energy is just a component of this failure of EU to be a real Single Market or, for that matter, a True Free Market Economy.

As mentioned, in the field of the energy policy the EU wants to fully open up the existing energy market to enable half a billion citizens to get their electricity or gas from anywhere else in Europe. In fact, this means the abolition of controlled prices and the separation of asset ownership by integrated operators. As result, Mr. Barroso proposed stopping power generation and power supply being owned by the same company, but this subject is very controversial, at least in France and Germany. In January 2007 the EU Commission stated that national energy champions such as Germany's E.ON or France's EDF should be broken down into smaller pieces because they stifle competition and investment. Both countries responded by mentioning the threat of EU companies being bought by large competitors like Russian Gazprom.

Anyway, at least for the moment, the EU member states agree only on principles¹. At an economy ministers' meeting in Brussels on Thursday, 15 February, 2007 the EU states did not back European Commission calls for binding targets on renewable energy or biofuels.

To summarize, for the moment EU has an energy commissioner in the person of Mr. Andris Piebalgs but not a common energy policy². There are just a number of common accepted elements:

- climate change is a clear and present danger;
- each member state has sovereignty over which type of energy it uses;

¹ 2002/358/EC: Council Decision of 25 April 2002 concerning the approval, on behalf of the European Community, of the Kyoto Protocol to the United Nations Framework Convention on Climate Change and the joint fulfilment of commitments thereunder , Official Journal L 130 , 15/05/2002 P. 0001 – 0003.

² Andrew Rettman, EU States Can't Agree on Energy Targets, Business Week Europe February 16, 2007.

- EU states must speak with one voice and show solidarity in the face of foreign supply shocks, such as January's Russia-Belarus oil crunch;
- EU should develop stronger relations with gas and oil suppliers in Algeria, Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan and transit state Georgia as key foreign policy goals.

If we move from principles to concrete issues, the member states are rather divided. More than 10 member states led by Sweden and Denmark are keen to sign up to a binding target of 20 percent renewable energy consumption at EU level by 2020, but the rest, including the UK and Poland, decline this goal amid confusion on the impact of industrial reforms individual states would have to undertake to match the EU goal.

Despite its complexity a common energy policy is needed and will impact the lives of all EU citizens in more ways than one. A common energy policy is something that has to be done, however unpleasant and difficult it could be. But it is clear that it is not happening now. It just started to become real enough to allow a glimpse into the future.

And the future is like this: The main ideas on a common energy policy will be discussed at a summit of EU leaders in March 2007, and some laws and regulations could be drafted some time after that. Many of these laws and regulations would have to get the approval of EU Council and, further on, be endorsed by the European Parliament. The whole process may take a couple of years, and the end result can differ considerably from the Commission's initial proposal.

But facts like rapid climate change, Russia's position on energy supplies, Middle East situation, global competition and global energy prices may speed up the process and EU may be forced to adopt a common energy policy much faster than we can imagine.